



August 2021

# MANAGEMENT REPORT

## Continued Improvements Needed in the Processes Used to Prepare the U.S. Consolidated Financial Statements

Accessible Version



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## Why GAO Did This Study

The Secretary of the Treasury, in coordination with the Director of OMB, prepares the *Financial Report of the United States Government*, which contains the CFS. Since GAO's first audit of the CFS, for fiscal year 1997, certain material weaknesses and other limitations have prevented GAO from expressing an opinion on the accrual-based consolidated financial statements. As part of the fiscal year 2020 CFS audit, GAO identified continuing material weaknesses and other control deficiencies in the processes used to prepare the CFS. The objective of this report is to provide the status of corrective actions that Treasury and OMB have taken to address GAO's prior recommendations related to the processes used to prepare the CFS that remained open as of the completion of GAO's fiscal year 2019 audit.

## What GAO Recommends

GAO is not making any new recommendations in this report. It is important that Treasury, in coordination with OMB, continue to take action to address the remaining 12 open recommendations. In commenting on GAO's draft report, Treasury noted (1) that Treasury and OMB have improved processes and strengthened internal controls over the processes used to prepare the CFS and (2) its ongoing commitment to improving federal financial reporting. OMB generally agreed with the draft report and noted its continuing commitment to achieving sound financial management across the federal government.

View [GAO-21-587](#). For more information, contact Dawn B. Simpson at (202) 512-3406 or [simpsondb@gao.gov](mailto:simpsondb@gao.gov).

## MANAGEMENT REPORT

### Continued Improvements Needed in the Processes Used to Prepare the U.S. Consolidated Financial Statements

#### What GAO Found

GAO's audit of the fiscal year 2020 consolidated financial statements of the U.S. government (CFS) found continuing control deficiencies in the Department of the Treasury's (Treasury) and the Office of Management and Budget's (OMB) processes used to prepare the CFS. These control deficiencies contributed to material weaknesses in internal control that involve the federal government's inability to

- adequately account for intragovernmental activity and balances between federal entities;
- reasonably assure that the consolidated financial statements are (1) consistent with the underlying audited entities' financial statements, (2) properly balanced, and (3) in accordance with U.S. generally accepted accounting principles; and
- reasonably assure that the information in the (1) Reconciliations of Net Operating Cost and Budget Deficit and (2) Statements of Changes in Cash Balance from Budget and Other Activities is complete, properly supported, and consistent with the underlying information in the audited entities' financial statements and other financial data.

As of the completion of GAO's fiscal year 2019 CFS audit, 15 recommendations were open from GAO's prior reports related to control deficiencies in the processes used to prepare the CFS. Treasury, in coordination with OMB, implemented corrective actions that resolved control deficiencies related to three of the 15 recommendations. As a result, GAO closed these three recommendations. These corrective actions included

- establishing effective processes and procedures to reasonably assure that appropriate information regarding legal contingency losses is reported in the CFS;
- implementing additional reviews and improved procedures to reasonably assure that restatements, reclassifications, and adjustments to beginning net position are properly supported and accurately reported; and
- improving corrective action plans for certain areas by including sufficient steps to effectively address related control deficiencies.

While progress was made, 12 of the 15 recommendations remained open as of March 17, 2021, the date of GAO's report on its audit of the fiscal year 2020 CFS. GAO will continue to monitor the status of corrective actions taken to address the 12 open recommendations from prior years as part of its fiscal year 2021 CFS audit.

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	<b>Abbreviations</b>	
	CFS	consolidated financial statements of the U.S. government
	FASB	Financial Accounting Standards Board
	<i>Financial Report</i>	<i>Financial Report of the United States Government</i>
	Fiscal Service	Bureau of the Fiscal Service
	GAAP	generally accepted accounting principles
	OMB	Office of Management and Budget
	SCSIA	Statements of Changes in Social Insurance Amounts
	SFFAS	Statement of Federal Financial Accounting Standards
	SLTFP	Statements of Long-Term Fiscal Projections
	SOSI	Statements of Social Insurance
	Treasury	Department of the Treasury

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August 12, 2021

The Honorable Janet Yellen  
Secretary of the Treasury

The Honorable Shalanda Young  
Acting Director  
Office of Management and Budget

In our March 2021 report on the results of our audit of the consolidated financial statements of the U.S. government (CFS) as of and for the fiscal years ended September 30, 2020, and 2019,<sup>1</sup> we disclaimed an opinion on the CFS. Since our first audit of the CFS, for fiscal year 1997, certain material weaknesses<sup>2</sup> in internal control over financial reporting and other limitations on the scope of our work have resulted in conditions that prevented us from expressing an opinion on the federal government's accrual-based consolidated financial statements.<sup>3</sup> These material weaknesses are described in our report on the audit of the fiscal year

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<sup>1</sup>The CFS as of and for the fiscal years ended September 30, 2020, and 2019, consist of the Statements of Net Cost; Statements of Operations and Changes in Net Position; Reconciliations of Net Operating Cost and Budget Deficit; Statements of Changes in Cash Balance from Budget and Other Activities; Balance Sheets; 2020 and 2019 Statements of Long-Term Fiscal Projections (SLTFP); 2020, 2019, 2018, 2017, and 2016 Statements of Social Insurance (SOSI); and 2020 and 2019 Statements of Changes in Social Insurance Amounts (SCSIA), including the related notes to these financial statements. For the CFS and GAO's report thereon, see GAO, *Financial Audit: FY 2020 and FY 2019 Consolidated Financial Statements of the U.S. Government*, [GAO-21-340R](#) (Washington, D.C.: Mar. 25, 2021).

<sup>2</sup>A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis.

<sup>3</sup>As used in this report, accrual-based consolidated financial statements refer to all of the consolidated financial statements and notes, except for those related to the SLTFP, SOSI, and SCSIA. Because of significant uncertainties, primarily related to the achievement of projected reductions in Medicare cost growth, we were unable to, and did not, express opinions on the 2020, 2019, 2018, 2017, and 2016 SOSI and the 2020 and 2019 SCSIA. Because of these significant uncertainties and a material weakness in internal control, we were unable to, and did not, express an opinion on the 2020 and 2019 SLTFP.

2020 CFS.<sup>4</sup> Other auditors also reported, in their audit reports on individual federal entities' financial statements, internal control deficiencies related to several of these material weaknesses along with related recommendations.

Several of the material weaknesses described in our audit report relate to the federal government's processes used to prepare the CFS.<sup>5</sup> Such material weaknesses involve the federal government's inability to

- adequately account for intragovernmental activity and balances between federal entities;
- reasonably assure that the consolidated financial statements are (1) consistent with the underlying audited entities' financial statements, (2) properly balanced, and (3) in accordance with U.S. generally accepted accounting principles; and
- reasonably assure that the information in the (1) Reconciliations of Net Operating Cost and Budget Deficit and (2) Statements of Changes in Cash Balance from Budget and Other Activities is complete, properly supported, and consistent with the underlying information in the audited entities' financial statements and other financial data.

The Secretary of the Treasury, in coordination with the Director of the Office of Management and Budget (OMB), prepares, on behalf of the federal government, the *Financial Report of the United States Government (Financial Report)*, which contains the CFS.<sup>6</sup> The objective of this management report is to provide the status of corrective actions that the Department of the Treasury (Treasury) and OMB have taken to address the 15 recommendations relating to the processes used to prepare the CFS that were detailed in our previous reports and remained

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<sup>4</sup>[GAO-21-340R](#), app. II.

<sup>5</sup>Our March 2021 report also discussed material weaknesses and scope limitations that did not relate to the processes used to prepare the CFS but prevented us from expressing an opinion on the federal government's accrual-based consolidated financial statements.

<sup>6</sup>The Government Management Reform Act of 1994 has required the preparation of the government-wide financial statements, covering the executive branch of the government, beginning with financial statements prepared for fiscal year 1997. See 31 U.S.C. § 331(e). The consolidated financial statements also include the legislative and judicial branches.

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open as of the completion of our fiscal year 2019 audit.<sup>7</sup> We are not making any new recommendations in this report.

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## Scope and Methodology

As part of our fiscal year 2020 CFS audit, we considered the federal government's financial reporting procedures and related internal control. We determined the status of corrective actions Treasury and OMB have taken to address open recommendations relating to their processes to prepare the CFS. We made these recommendations in our previous reports, and they remained open as of the completion of our fiscal year 2019 audit. A full discussion of our scope and methodology is included in our March 2021 report on the audit of the fiscal year 2020 CFS.<sup>8</sup> We have communicated the status of each of the recommendations discussed in this report with your staff. We performed our audit in accordance with U.S. generally accepted government auditing standards. We believe that our audit provides a reasonable basis for this report.

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## Status of Recommendations from Prior Reports

At the completion of our fiscal year 2019 audit, 15 recommendations were open from our prior reports regarding control deficiencies in the processes used to prepare the CFS. During our fiscal year 2020 CFS audit, we found that Treasury, in coordination with OMB, implemented corrective actions that resulted in significant progress in resolving certain control deficiencies addressed by our prior recommendations. For three recommendations, the corrective actions resolved the related control deficiencies, and we closed the recommendations. As described in appendix I of this report, these corrective actions included

- establishing effective processes and procedures to reasonably assure that appropriate information regarding legal contingency losses is reported in the CFS;
- implementing additional reviews and improved procedures to reasonably assure that restatements, reclassifications, and

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<sup>7</sup>GAO, *Management Report: Improvements Needed in Controls over the Processes Used to Prepare the U.S. Consolidated Financial Statements*, [GAO-20-586](#) (Washington, D.C.: Aug. 25, 2020).

<sup>8</sup>[GAO-21-340R](#).

adjustments to beginning net position are properly supported and accurately reported; and

- improving corrective action plans for certain areas by including sufficient steps to effectively address related control deficiencies.

While progress was made, 12 recommendations from our prior reports remained open as of March 17, 2021, the date of our report on the audit of the fiscal year 2020 CFS. These continuing control deficiencies contributed to the material weaknesses that relate to the federal government's processes used to prepare the CFS. It is important that Treasury, in coordination with OMB, continue to take action to address the remaining 12 open recommendations.

Appendix I summarizes the status of the 15 open recommendations from our prior years' reports according to Treasury and OMB, as well as our own assessment and additional comments. Various efforts are under way to address these recommendations. As part of our fiscal year 2021 CFS audit, we will continue to monitor Treasury's and OMB's progress in addressing our recommendations.

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## Agency Comments

We provided a draft of this report to Treasury and OMB for comment. In written comments, reproduced in appendix II, Treasury stated that it appreciates our perspective and will continue to focus its efforts on cost-beneficial solutions to resolve the material conditions that preclude having an opinion rendered on the CFS. Treasury noted that the draft report does not identify any new recommendations and that this demonstrates the improved processes and strengthened internal controls that Treasury and OMB have established. Treasury indicated its ongoing commitment to improving federal financial reporting.

In oral comments, OMB staff in the Office of Federal Financial Management stated that OMB generally agreed with the draft report and Treasury's written response. OMB noted that the current administration is committed to continuing to work with Treasury and federal agencies to achieve sound financial management across the federal government.

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We are sending copies of this report to appropriate congressional committees, the Fiscal Assistant Secretary of the Treasury, the Controller of the Office of Management and Budget's Office of Federal Financial Management, and other interested parties. In addition, the report is available at no charge on the GAO website at <https://www.gao.gov>.

We acknowledge and appreciate the cooperation and assistance that Treasury and OMB staff members provided during our audit. If you or your staffs have any questions or wish to discuss this report, please contact me at (202) 512-3406 or [simpsondb@gao.gov](mailto:simpsondb@gao.gov). Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report. GAO staff members who made major contributions to this report are listed in appendix III.

A handwritten signature in black ink that reads "Dawn Simpson". The signature is written in a cursive, flowing style.

Dawn B. Simpson  
Director  
Financial Management and Assurance

# Appendix I: Status of GAO's Prior Recommendations Related to the Processes Used to Prepare the CFS

Table 1 shows the status of our prior recommendations related to the processes used to prepare the consolidated financial statements of the U.S. government (CFS). The abbreviations used are defined in the legend at the end of the table.

**Table 1: Status of GAO's Prior Recommendations Related to the Processes Used to Prepare the CFS**

	Count	No.	Recommendation <sup>a</sup>	Status of recommendation <sup>b</sup>	
				Per Treasury and OMB	Per GAO
<a href="#">GAO-04-45</a> (results of the fiscal year 2002 audit)	1	02-37	The Secretary of the Treasury should direct the Fiscal Assistant Secretary, in coordination with the Controller of OMB, to establish written policies and procedures to help ensure that major treaty and other international agreement information is properly identified and reported in the CFS. Specifically, these policies and procedures should require that federal agencies develop a detailed schedule of all major treaties and other international agreements that obligate the U.S. government to provide cash, goods, or services, or that create other financial arrangements that are contingent on the occurrence or nonoccurrence of future events (a starting point for compiling these data could be the State Department's Treaties in Force). (Preparation material weakness)	Treasury and OMB established three broad categories (Contingent Obligation, Present Obligation, and No Present or Contingent Obligation) for treaties and other international agreements with respect to their potential financial implications. In fiscal year 2020, State, Treasury, and OMB established subcategories within the Treaties in Force database and identified and reviewed selected treaties and other international agreements to determine any financial implications. Fiscal Service and State will continue reviewing selected treaties and other international agreements, jointly monitoring the identified subcategories annually to identify any new contingent liabilities and to reconcile agencies' treaty claims to a government-wide list of treaty claims from State annually.	Open. Treasury and OMB continued to implement corrective actions in coordination with State. Additional work is needed for the review, monitoring, and documentation of conclusions to provide reasonable assurance that liabilities, commitments, and contingencies for treaties and other international agreements of the federal government are properly identified and reported in the CFS.

**Appendix I: Status of GAO's Prior  
Recommendations Related to the Processes  
Used to Prepare the CFS**

Count	No.	Recommendation <sup>a</sup>	Status of recommendation <sup>b</sup>	
			Per Treasury and OMB	Per GAO
2	02-38	The Secretary of the Treasury should direct the Fiscal Assistant Secretary, in coordination with the Controller of OMB, to establish written policies and procedures to help ensure that major treaty and other international agreement information is properly identified and reported in the CFS. Specifically, these policies and procedures should require that federal agencies classify all such scheduled major treaties and other international agreements as commitments or contingencies. (Preparation material weakness)	See the status of recommendation No. 02-37.	Open. See the status of recommendation No. 02-37.
3	02-39	The Secretary of the Treasury should direct the Fiscal Assistant Secretary, in coordination with the Controller of OMB, to establish written policies and procedures to help ensure that major treaty and other international agreement information is properly identified and reported in the CFS. Specifically, these policies and procedures should require that federal agencies disclose in the notes to the CFS amounts for major treaties and other international agreements that have a reasonably possible chance of resulting in a loss or claim as a contingency. (Preparation material weakness)	See the status of recommendation No. 02-37.	Open. See the status of recommendation No. 02-37.

**Appendix I: Status of GAO's Prior  
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Count	No.	Recommendation <sup>a</sup>	Status of recommendation <sup>b</sup>	
			Per Treasury and OMB	Per GAO
4	02-40	The Secretary of the Treasury should direct the Fiscal Assistant Secretary, in coordination with the Controller of OMB, to establish written policies and procedures to help ensure that major treaty and other international agreement information is properly identified and reported in the CFS. Specifically, these policies and procedures should require that federal agencies disclose in the notes to the CFS amounts for major treaties and other international agreements that are classified as commitments and that may require measurable future financial obligations. (Preparation material weakness)	See the status of recommendation No. 02-37.	Open. See the status of recommendation No. 02-37.
5	02-41	The Secretary of the Treasury should direct the Fiscal Assistant Secretary, in coordination with the Controller of OMB, to establish written policies and procedures to help ensure that major treaty and other international agreement information is properly identified and reported in the CFS. Specifically, these policies and procedures should require that federal agencies take steps to prevent major treaties and other international agreements that are classified as remote from being recorded or disclosed as probable or reasonably possible in the CFS. (Preparation material weakness)	See the status of recommendation No. 02-37.	Open. See the status of recommendation No. 02-37.

**Appendix I: Status of GAO's Prior  
Recommendations Related to the Processes  
Used to Prepare the CFS**

			<b>Status of recommendation<sup>b</sup></b>		
	<b>Count</b>	<b>No.</b>	<b>Recommendation<sup>a</sup></b>	<b>Per Treasury and OMB</b>	<b>Per GAO</b>
<b>GAO-13-540 (results from the fiscal year 2012 audit)</b>	6	12-04	The Secretary of the Treasury should direct the Fiscal Assistant Secretary, working in coordination with the Controller of OMB's Office of Federal Financial Management, to establish and implement effective procedures for reporting amounts in the CFS budget statements that are fully consistent with the underlying information in significant federal entities' audited financial statements and other financial data. (Reconciliation Statements material weakness)	Treasury has two focus areas to ensure that the budget statements are fully consistent with federal entities' audited data. First, Treasury reviews the audit of the General Fund of the U.S. Government to obtain audit assurance over the budget deficit amount. Secondly, Treasury continued to provide federal entities with additional guidance to supplement SFFAS 53, <i>Budget and Accrual Reconciliation</i> , to ensure that they are implementing the reconciliation consistently. Once consistent reporting is achieved by federal entities then Treasury will trace it to the Reconciliation Statements.	Open. Treasury continued to develop its process for preparing the Reconciliation Statements, such as implementing procedures and developing new transaction codes to improve accounting for transactions and balances that Treasury uses to compute the budget deficit reported in the CFS. Additional work is needed to obtain consistency in information that federal entities provide and to reconcile line items to audited federal entity financial statements.
	7	12-05	The Secretary of the Treasury should direct the Fiscal Assistant Secretary, working in coordination with the Controller of OMB's Office of Federal Financial Management, to establish and implement effective procedures for identifying and reporting all items needed to prepare the CFS budget statements. (Reconciliation Statements material weakness)	Treasury has effective procedures for identifying and reporting all items needed to prepare the Reconciliation Statements. In fiscal year 2021, Treasury will focus on identifying the best financial statement presentation for the reconciling items.	Open. Treasury continued to identify items needed to prepare the Reconciliation Statements. Additional work is needed to determine the appropriate presentation for the reconciling items, which could affect the line items included.
<b>GAO-14-543 (results from the fiscal year 2013 audit)</b>	8	13-06	The Secretary of the Treasury should direct the Fiscal Assistant Secretary, working in coordination with the Controller of OMB, to establish and implement policies and procedures for accounting for and reporting all significant General Fund activity and balances, obtaining assurance on the reliability of the amounts, and reconciling the activity and balances between the General Fund and federal entities. (Intragovernmental material weakness)	Treasury has worked previously to develop the infrastructure to support the Schedules of the General Fund. In addition, Treasury developed an accounting model as well as a reporting format for the General Fund. Treasury also created a method for federal entities to identify and report their activity with the General Fund that has shown great results in reconciling intragovernmental activity with the General Fund. Treasury continues to work on obtaining audit assurance on the activity and balances.	Open. Treasury continued to implement procedures and develop new transaction codes to improve the accounting for and reporting of General Fund transactions and balances. Additional work is needed to account for and report all significant General Fund activity and balances, including obtaining audit assurance and reconciling the activity and balances with other federal entities.

**Appendix I: Status of GAO's Prior  
Recommendations Related to the Processes  
Used to Prepare the CFS**

Count	No.	Recommendation <sup>a</sup>	Status of recommendation <sup>b</sup>		
			Per Treasury and OMB	Per GAO	
9	13-07	The Secretary of the Treasury should direct the Fiscal Assistant Secretary, working in coordination with the Controller of OMB, to establish a formalized process to require the performance of additional audit procedures specifically focused on intragovernmental activity and balances between federal entities to provide increased audit assurance over the reliability of such information. (Intragovernmental material weakness)	As a result of multiple ongoing initiatives, Treasury and OMB have observed a significant decrease in intragovernmental differences related to unreconciled transactions submitted by federal entities. Therefore, Treasury and OMB have determined that at this time there is not a justified need for the additional cost and burden on federal entities to implement additional audit procedures specifically focused on intragovernmental activity and balances. There will be work in the next couple years to strengthen the audit procedures performed at the federal entity level around intragovernmental activity and balances.	Open. While progress was made, we continued to note that amounts reported by federal entity trading partners to Treasury were not in agreement by significant amounts. A formalized process requiring that auditors perform additional audit procedures focused on intragovernmental activity and balances would help to address these unreconciled transactions.	
<a href="#">GAO-17-524</a> (results from the fiscal year 2016 audit)	10	16-03	The Secretary of the Treasury should direct the Fiscal Assistant Secretary, working in coordination with the Controller of OMB, to improve corrective action plans for (1) treaties and international agreements, (2) additional audit procedures for intragovernmental activity and balances, and (3) the Reconciliation Statements so that they include sufficient information to address the control deficiencies in these areas effectively. (Preparation material weakness)	Treasury and OMB enhanced corrective action plans and agree that they are sufficient to address the control deficiencies outlined for treaties, intragovernmental activity and balances, and the Reconciliation Statements.	Closed. During our fiscal year 2020 audit, we determined that Treasury and OMB improved corrective action plans and therefore sufficiently addressed this recommendation.
<a href="#">GAO-19-624</a> (results from the fiscal year 2018 audit)	11	18-02	The Secretary of the Treasury should ensure that the Fiscal Assistant Secretary enhances existing procedures for Treasury management to perform additional reviews for restatements, reclassifications, and adjustments to beginning net position to reasonably assure that they are properly supported and accurately reported. (Preparation material weakness)	Treasury enhanced procedures to reasonably assure that changes to prior period reported amounts have been properly categorized and reported.	Closed. During our fiscal year 2020 audit, we determined that Treasury designed and implemented corrective actions that sufficiently addressed this recommendation.

**Appendix I: Status of GAO's Prior  
Recommendations Related to the Processes  
Used to Prepare the CFS**

Count	No.	Recommendation <sup>a</sup>	Status of recommendation <sup>b</sup>		
			Per Treasury and OMB	Per GAO	
12	18-04	The Secretary of the Treasury should ensure that the Fiscal Assistant Secretary, working in coordination with the Controller of OMB, establishes effective processes and procedures to reasonably assure that appropriate information regarding legal contingency losses is reported in the CFS. (Preparation material weakness)	Treasury updated processes and procedures to show consistencies between entities' legal letters, management schedules, and financial statements, which subsequently supports the reporting of liabilities and contingencies at the government-wide level.	Closed. During our fiscal year 2020 audit, we determined that Treasury designed and implemented corrective actions that sufficiently addressed this recommendation.	
<a href="#">GAO-20-586</a> (results from the fiscal year 2019 audit)	13	19-01	The Secretary of the Treasury should ensure that the Fiscal Assistant Secretary enhances Treasury's procedures for the aggregate analysis to consider the impact of all amounts not obtained from significant entity audited financial statements on the reliability of the CFS and use the results to determine if audit coverage is needed for any information. (Preparation material weakness)	In fiscal year 2020, Treasury began developing additional aggregate analysis procedures and working with OMB to require federal entities, per OMB Circular No. A-136, to report information in their audited financial statements to provide the necessary audit coverage for the <i>Financial Report</i> . For the information to be disclosed for the federal entities following FASB, Treasury is working on an accounting policy to follow for disclosure in the <i>Financial Report</i> .	Open. Treasury began designing corrective actions in fiscal year 2020. Additional work is needed to enhance procedures for the aggregate analysis and use the results to determine if additional audit coverage is needed for any information.
14	19-02	The Secretary of the Treasury should ensure that the Fiscal Assistant Secretary enhances Treasury's process for revising accounting and reporting policies to reasonably assure that financial information—including the Statement of Operations and Changes in Net Position, Funds from Dedicated Collections note, and Other Liabilities note—is prepared in accordance with U.S. GAAP and sufficiently documented to allow effective management review. (Preparation material weakness)	Treasury updated accounting and reporting procedures to reasonably assure that financial information is prepared in accordance with U.S. GAAP. In fiscal year 2021, Treasury will prepare an overall white paper to outline the process followed in making a significant accounting policy change for the <i>Financial Report</i> .	Open. Additional work is needed to enhance the process for revising accounting and reporting policies.	

**Appendix I: Status of GAO's Prior  
Recommendations Related to the Processes  
Used to Prepare the CFS**

Count	No.	Recommendation <sup>a</sup>	Status of recommendation <sup>b</sup>	
			Per Treasury and OMB	Per GAO
15	19-03	The Secretary of the Treasury should ensure that the Fiscal Assistant Secretary enhances existing procedures to reasonably assure that disclosures for financial information incorporated using accounting standards issued by FASB are prepared in accordance with U.S. GAAP, such as improving (1) the quantitative analysis to consider all FASB information included in the CFS, (2) the FASB questionnaire to consider all relevant disclosures and obtain responses from all significant component entities, and (3) procedures for sufficiently documenting analyses and conclusions related to FASB information in the CFS. (Preparation material weakness)	SFFAS 47 provides broad authoritative requirements with respect to determining when FASB conversion, consolidation, or both are necessary and when disclosures are applicable. However, some of the requirements are prone to significant subjectivity and result in challenges with respect to where, when, and how conversion, disclosure, and other reporting effects relating to FASB reporting are appropriate in preparing the <i>Financial Report</i> . Therefore, Treasury is working on an accounting policy and additional guidance for the <i>Financial Report</i> of financial information reported by federal entities following FASB accounting standards.	Open. In addition to the accounting policy and guidance Treasury is developing, enhancements in procedures for disclosures of financial information incorporated using accounting standards issued by FASB, such as improving the quantitative analysis, questionnaire process, and procedures for sufficiently documenting analyses and conclusions, are needed.

Legend:

- CFS = consolidated financial statements of the U.S. government
- FASB = Financial Accounting Standards Board
- Financial Report* = *Financial Report of the U.S. Government*
- Fiscal Service = Bureau of the Fiscal Service
- GAAP = generally accepted accounting principles
- OMB = Office of Management and Budget
- SFFAS = Statement of Federal Financial Accounting Standards
- State = Department of State
- Treasury = Department of the Treasury

Sources: GAO, Treasury, and OMB | GAO-21-587

<sup>a</sup>The recommendations from our prior reports related to material weaknesses in the following areas:

**Intragovernmental:** The material weakness relates to the federal government's inability to adequately account for intragovernmental activity and balances between federal entities.

**Preparation:** The material weakness relates to the federal government's inability to reasonably assure that the CFS are (1) consistent with the underlying audited entities' financial statements, (2) properly balanced, and (3) in accordance with U.S. GAAP.

**Reconciliation Statements:** The material weakness relates to the federal government's inability to reasonably assure that the information in the (1) Reconciliations of Net Operating Cost and Budget Deficit and (2) Statements of Changes in Cash Balance from Budget and Other Activities is complete, properly supported, and consistent with the underlying information in the audited entities' financial statements and other financial data.

<sup>b</sup>The status of the recommendations listed in this table is as of March 17, 2021, the date of our report on the audit of the fiscal year 2020 CFS.

# Appendix II: Comments from the Department of the Treasury



DEPARTMENT OF THE TREASURY  
WASHINGTON, D.C. 20220

July 29, 2021

Ms. Dawn B. Simpson  
Director, Financial Management and Assurance  
Government Accountability Office  
441 G Street, NW  
Washington, DC 20548

Dear Ms. Simpson:

Thank you for the opportunity to comment on the Government Accountability Office's (GAO) draft Management Report (Report) on the Fiscal Year (FY) 2020 audit, GAO-21-587, *MANAGEMENT REPORT, Continued Improvements Needed in the Processes Used to Prepare the U.S. Consolidated Financial Statements (CFS)*.

We appreciate GAO's perspective and look forward to building on our significant progress to date in pursuing resolution of the remaining substantial barriers to auditability of the *Financial Report of the U.S. Government (Financial Report)*. The Department of the Treasury's (Treasury) efforts in recent years have yielded closure of over 55 percent of outstanding prior year recommendations since FY 2015. Going forward and reflecting management's accountability to the reliable reporting of the Government's financial position, Treasury will continue to focus its efforts on cost-beneficial solutions that Treasury believes will yield the desired outcome - sufficiently resolving the material conditions that have precluded the full audit of the *Financial Report* since its inception in FY 1997.

We are pleased to note that, for the second time in the 24-year history of the *Financial Report*, GAO's draft Report does not identify any new recommendations. We believe that this demonstrates the improved processes and strengthened internal controls Treasury and Office of Management and Budget (OMB) have established and reflects the overall progress that has been achieved through collaborative efforts with the federal financial management community.

Additionally, we are pleased with the closure of three outstanding recommendations from prior years' report. The remaining recommendations emphasize and articulate the three critical material weaknesses identified in the audit: (1) intra-governmental activity and balances; (2) preparation of the CFS; and (3) reconciliations of budget deficit to net operating cost and changes in cash balance.

Treasury continues to improve the reliability of the amounts in the Schedules of the General Fund of the U.S. Government. The General Fund has undergone two audits for FY 2018 and FY 2020 and both resulted in a disclaimer of opinion; although Treasury continues to make significant improvements in: (1) improving the accounting for and reporting of General Fund activity and

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**Appendix II: Comments from the Department  
of the Treasury**

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balances and (2) reducing the intra-governmental elimination differences between the General Fund and its trading partners. These differences totaled \$28 billion in FY 2020, which is a decrease of 78 percent in just the last two fiscal years. This decrease is consistent with the overall intra-governmental eliminations differences that have had a significant decrease of 96 percent in the past four years (\$1.37 trillion in FY 2016 to \$58 billion in FY 2020). Reporting on and audit of the General Fund represents a significant milestone as the lack of distinct and detailed accounting for the General Fund has been a long-standing issue contributing to all three of the aforementioned material weaknesses.

In addition, Treasury's efforts in recent years have significantly strengthened internal controls intended to address the preparation of material weakness. Notably, the U.S. Chief Financial Officers (CFO) Council has provided essential support towards Treasury's efforts to develop a consensus plan to address several long-standing audit recommendations concerning the financial reporting of treaties and other international agreements.

Finally, Treasury also made great strides in validating material completeness of budgetary information included in the *Financial Report*, as well as the consistency of that information with federal entity reports. In FY 2020 and FY 2019, the focus has been on identifying the transaction-level data needed to improve its traceability to federal entity financial statement lines and its use in calculating the U.S. government's budget deficit, as well as having the federal entities report this detailed level of data starting in FY 2021. The additional entity data will support the General Fund audit and, in so doing, provide assurance over the budget deficit amounts reported in the CFS.

In conclusion, we appreciate GAO's partnership and continued support. Thank you again for the opportunity to review and comment on the Report. We look forward to working with you and your staff as we fulfill our ongoing commitment to improve federal financial reporting.

Sincerely,  
*/s/ Amy B. Edwards*  
Amy B. Edwards  
Deputy Assistant Secretary  
Accounting Policy and Financial  
Transparency

cc: Deidre A. Harrison

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## Text of Appendix II: Comments from the Department of the Treasury

July 29, 2021

Ms. Dawn B. Simpson

Director, Financial Management and Assurance Government Accountability Office

441 G Street, NW Washington, DC 20548

Dear Ms. Simpson:

Thank you for the opportunity to comment on the Government Accountability Office's (GAO) draft Management Report (Report) on the Fiscal Year (FY) 2020 audit, GAO-21-587, MANAGEMENT REPORT, Continued Improvements Needed in the Processes Used to Prepare the U.S. Consolidated Financial Statements (CFS).

We appreciate GAO's perspective and look forward to building on our significant progress to date in pursuing resolution of the remaining substantial barriers to auditability of the Financial Report of the U.S. Government (Financial Report). The Department of the Treasury's (Treasury) efforts in recent years have yielded closure of over 55 percent of outstanding prior year recommendations since FY 2015. Going forward and reflecting management's accountability to the reliable reporting of the Government's financial position, Treasury will continue to focus its efforts on cost-beneficial solutions that Treasury believes will yield the desired outcome - sufficiently resolving the material conditions that have precluded the full audit of the Financial Report since its inception in FY 1997.

We are pleased to note that, for the second time in the 24-year history of the Financial Report, GAO's draft Report does not identify any new recommendations. We believe that this demonstrates the improved processes and strengthened internal controls Treasury and Office of Management and Budget (OMB) have established and reflects the overall progress that has been achieved through collaborative efforts with the federal financial management community.

Additionally, we are pleased with the closure of three outstanding recommendations from prior years' report. The remaining recommendations emphasize and articulate the three critical material weaknesses identified in the audit: (1) intra-governmental activity and balances; (2) preparation of the CFS; and (3) reconciliations of budget deficit to net operating cost and changes in cash balance.

Treasury continues to improve the reliability of the amounts in the Schedules of the General Fund of the U.S. Government. The General Fund has undergone two audits for FY 2018 and FY 2020 and both resulted in a disclaimer of opinion; although Treasury continues to make significant improvements in: (1) improving the accounting for and reporting of General Fund activity and balances and (2) reducing the intra-governmental elimination differences between the General Fund and its trading partners. These differences totaled \$28 billion in FY 2020, which is a decrease of 78 percent in just the last two fiscal years. This decrease is consistent with the overall intra-governmental eliminations differences that have had a significant decrease of 96 percent in the past four years (\$1.37 trillion in FY 2016 to \$58 billion in FY 2020). Reporting on and audit of the General Fund represents a significant milestone as the lack of distinct and detailed accounting for the General Fund has been a long-standing issue contributing to all three of the aforementioned material weaknesses.

In addition, Treasury's efforts in recent years have significantly strengthened internal controls intended to address the preparation of material weakness. Notably, the U.S. Chief Financial Officers (CFO) Council has provided essential support towards Treasury's efforts to develop a consensus plan to address several long-standing audit recommendations concerning the financial reporting of treaties and other international agreements.

Finally, Treasury also made great strides in validating material completeness of budgetary information included in the Financial Report, as well as the consistency of that information with federal entity reports. In FY 2020 and FY 2019, the focus has been on identifying the transaction-level data needed to improve its traceability to federal entity financial statement lines and its use in calculating the U.S. government's budget deficit, as well as having the federal entities report this detailed level of data starting in FY 2021. The additional entity data will support the General Fund audit and, in so doing, provide assurance over the budget deficit amounts reported in the CFS.

In conclusion, we appreciate GAO's partnership and continued support. Thank you again for the opportunity to review and comment on the Report. We look forward to working with you and your staff as we fulfill our ongoing commitment to improve federal financial reporting.

Sincerely,

Amy B. Edwards

Deputy Assistant Secretary Accounting Policy and Financial Transparency

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**Appendix II: Comments from the Department  
of the Treasury**

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cc: Deidre A. Harrison

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## Appendix III: GAO Contact and Staff Acknowledgments

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### GAO Contact

Dawn B. Simpson, (202) 512-3406 or [simpsondb@gao.gov](mailto:simpsondb@gao.gov)

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### Staff Acknowledgments

In addition to the contact named above, the following individuals made major contributions to this report: Carolyn M. Voltz (Assistant Director), Adrienne N. Walker (Auditor-in-Charge), and Shaun Williams.

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